

ISLAND CORRIDOR FOUNDATION
Financial Statements
Year Ended December 31, 2014

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Year Ended December 31, 2014

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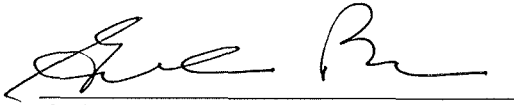
MANAGEMENT'S RESPONSIBILITY

Management has the responsibility for preparing the accompanying financial statements. This responsibility includes selecting appropriate accounting principles and making objective judgments and estimates in accordance with Canadian Accounting Standard for Not-for-Profit Organizations.

In discharging its responsibility for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained to provide reliable information for the preparation of the financial statements.

The Board of Directors is composed entirely of directors who are neither management nor employees of the Foundation. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors.

Hayes Stewart Little & Co., an independent firm of Chartered Accountants, is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both management and the Board of Directors to discuss their audit findings.



Graham Bruce
Chief Executive Officer

Nanaimo, BC

INDEPENDENT AUDITOR'S REPORT

To the Members of Island Corridor Foundation

We have audited the accompanying financial statements of Island Corridor Foundation, which comprise the statement of financial position as at December 31, 2014 and the statements of revenues and expenditures, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Island Corridor Foundation as at December 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

The financial statements for the year ended December 31, 2013 were audited by another accounting firm and are presented for comparative purposes only.

Emphasis of Matter

We draw attention to Note 2 to the financial statements which describes that certain events and transactions need to occur in order for the Foundation to continue as a going concern.

Report on Other Legal and Regulatory Requirements

As required by the Society Act (British Columbia), we report that, in our opinion, the accounting policies applied by the Foundation in preparing and presenting the financial statements in accordance with Canadian Accounting Standards for Not-for-Profit Organizations have been applied on a basis consistent with that of the preceding year.

Hayes Stewart Little & Co.

Nanaimo, BC
March 26, 2015

CHARTERED ACCOUNTANTS

ISLAND CORRIDOR FOUNDATION
Statement of Financial Position
December 31, 2014

	Operating Fund	Capital Fund	2014	2013
ASSETS				
CURRENT				
Cash	\$ 219,201	\$ 7,147	\$ 226,348	\$ 73,587
Externally restricted cash (Note 5)	-	21,491	21,491	31,026
Accounts receivable	21,893	-	21,893	19,860
Goods and services tax recoverable	-	-	-	7,367
Prepaid expenses	9,086	-	9,086	-
	250,180	28,638	278,818	131,840
PROPERTY, PLANT AND EQUIPMENT <i>(Net of accumulated amortization)</i> (Note 7)	-	339,948,301	339,948,301	344,079,183
FUNDS HELD IN TRUST (Note 6)	10,000	-	10,000	36,250
PREPAID EXPENSES	19,041	-	19,041	24,010
	\$ 279,221	\$ 339,976,939	\$ 340,256,160	\$ 344,271,283

See notes to the financial statements

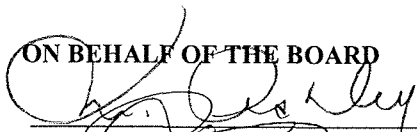
ISLAND CORRIDOR FOUNDATION
Statement of Financial Position
December 31, 2014

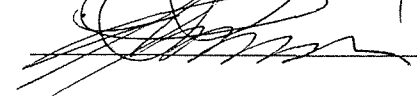
	Operating Fund	Capital Fund	2014	2013
LIABILITIES AND NET ASSETS				
CURRENT				
Accounts payable	\$ 33,038	\$ -	\$ 33,038	\$ 19,560
Callable debt due in one year <i>(Note 8)</i>	-	37,874	37,874	36,120
Current portion of long term debt <i>(Note 9)</i>	175,000	-	175,000	175,000
Accrued interest payable <i>(Note 9)</i>	43,124	2,922	46,046	39,700
Goods and services tax payable	173	-	173	-
Deferred income <i>(Note 10)</i>	25,991	-	25,991	15,870
	277,326	40,796	318,122	286,250
Callable debt due thereafter <i>(Note 8)</i>	-	982,004	982,004	1,019,872
	277,326	1,022,800	1,300,126	1,306,122
DEFERRED INCOME <i>(Note 10)</i>	120,876	-	120,876	56,899
	398,202	1,022,800	1,421,002	1,363,021
NET ASSETS	(118,981)	338,954,139	338,835,158	342,908,262
	<u>\$ 279,221</u>	<u>\$ 339,976,939</u>	<u>\$ 340,256,160</u>	<u>\$ 344,271,283</u>

CONTINGENT LIABILITY *(Note 12)*

COMMITMENTS *(Note 15)*

ON BEHALF OF THE BOARD

 Director

 Director

ISLAND CORRIDOR FOUNDATION
Statement of Revenues and Expenditures
Year Ended December 31, 2014

	Operating Fund	Capital Fund	2014	2013
Revenue				
Crossings, leases and fees <i>(Note 10)</i>	\$ 109,056	\$ -	\$ 109,056	\$ 142,493
Donations and grants <i>(Notes 5, 13)</i>	329,940	20,191	350,131	402,141
Rental Income <i>(Note 11)</i>	88,757	-	88,757	82,397
Interest	63	9	72	147
	<u>527,816</u>	<u>20,200</u>	<u>548,016</u>	<u>627,178</u>
EXPENSES				
Audit and accounting fees	27,380	-	27,380	25,246
Board expenses	15,800	-	15,800	17,800
Communications	23	1,386	1,409	-
Consulting fees	5,876	-	5,876	2,672
Insurance	19,791	-	19,791	27,708
Interest and bank charges	995	1,003	1,998	1,959
Interest on short term debt	7,000	48,731	55,731	60,165
Legal fees	39,044	-	39,044	66,977
Management and administration services <i>(Note 15)</i>	252,087	-	252,087	277,197
Office	8,437	-	8,437	11,554
Trail development fees <i>(Note 14)</i>	-	28,229	28,229	-
Property taxes and user rates <i>(Note 14)</i>	21,474	-	21,474	58,326
Repairs and maintenance	6,117	-	6,117	53,522
Travel	6,866	-	6,866	14,075
	<u>410,890</u>	<u>79,349</u>	<u>490,239</u>	<u>617,201</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES FROM OPERATIONS	116,926	(59,149)	57,777	9,977
Amortization	-	(4,130,881)	(4,130,881)	(4,179,661)
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	<u>\$ 116,926</u>	<u>\$ (4,190,030)</u>	<u>\$ (4,073,104)</u>	<u>\$ (4,169,684)</u>

See notes to the financial statements

ISLAND CORRIDOR FOUNDATION
Statement of Changes in Net Assets
Year Ended December 31, 2014

	Operating Fund	Capital Fund	2014	2013
NET ASSETS - BEGINNING OF YEAR	\$ (143,342)	\$ 343,051,604	\$ 342,908,262	\$ 347,077,946
Excess (deficiency) of revenue over expenses	116,926	(4,190,030)	(4,073,104)	(4,169,684)
Interfund loans and repayment of debt	(92,565)	92,565	-	-
NET ASSETS - END OF YEAR	<u>\$ (118,981)</u>	<u>\$ 338,954,139</u>	<u>\$ 338,835,158</u>	<u>\$ 342,908,262</u>

See notes to the financial statements

ISLAND CORRIDOR FOUNDATION
Statement of Cash Flows
Year Ended December 31, 2014

	2014	2013
OPERATING ACTIVITIES		
Cash receipts from donations, grants, leases	\$ 655,790	\$ 454,229
Cash paid for supplies and services	(409,260)	(457,444)
Interest received	73	147
Interest paid	(57,728)	(53,487)
Cash flow from operating activities	<u>188,875</u>	<u>(56,555)</u>
INVESTING ACTIVITY		
Purchase of property, plant and equipment	-	(826)
Cash flow from (used by) investing activity	<u>-</u>	<u>(826)</u>
FINANCING ACTIVITY		
Repayment of callable debt	(36,114)	(34,443)
Cash flow from (used by) financing activity	<u>(36,114)</u>	<u>(34,443)</u>
INCREASE (DECREASE) IN CASH FLOW	152,761	(91,824)
Cash - beginning of year	<u>73,587</u>	<u>165,411</u>
CASH - END OF YEAR	\$ 226,348	\$ 73,587

ISLAND CORRIDOR FOUNDATION
Notes to Financial Statements
Year Ended December 31, 2014

1. PURPOSE OF THE FOUNDATION

Island Corridor Foundation (the "Foundation") was incorporated under the laws of the Government of Canada on January 1, 2004, and was continued under the Canada Not-for-Profit Corporations Act. As a registered charity the foundation is exempt from the payment of income tax under Section 149(1) of the Income Tax Act and able to issue donation receipts for income tax purposes. In order to maintain the status of a charitable organization under the Act, the Foundation must meet certain requirements within the Act, which, in the opinion of management, have been met.

The members of the Foundation are ten First Nations and five regional districts. They assumed ownership of the 290-kilometre rail corridor in 2006 on behalf of the communities of Vancouver Island. The Foundation's purpose is to preserve the use of the corridor in perpetuity for the connection and benefit of all Island communities and First Nations along the corridor.

2. GOING CONCERN

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business.

The Foundations's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds therefrom, and to continue to fulfil the Foundations obligations on borrowings from third parties. These financial statements do not reflect the adjustments or reclassification of assets and liabilities, which would be necessary if the Foundation were unable to continue its operations.

The management of the Foundation has a plan in place to generate income from both rail and non-rail activities and to finalize an operating agreement with Southern Railway of Vancouver Island (SVI).

In addition the Foundation has commitments for \$20.9 million in grants for track and bridge infrastructure improvements. The Foundation is waiting for the Federal and Provincial governments to sign their funding contracts.

In respect to the Note Payable to Southern Railway, the parties have a draft agreement in the final stages of review in which Southern Railway of Vancouver Island (SVI) covenants under section 8.3.12 of the Draft Long Term Operating Agreement:

To defer repayment of the outstanding \$175,000 debt owing by the ICF to SVI plus accumulated unpaid interest incurred up to the date of execution of a Long Term Operating Agreement. SVI agrees to defer the debt repayment until the end of the third year following execution of the agreement. SVI further agrees that interest shall not accumulate on the loan during the three year deferral period. On the third anniversary date the loan will be repaid in five equal consecutive annual principal installments with interest at prime plus 1%. Security for the loan will be a general security agreement over all the present and after-acquired property, including accounts receivable.

In addition, section Article 6 of the Draft Long Term Operating Agreement assigns to the Foundation certain agreements for the responsibility and collection of revenues from the administration of the agreements.

There are continuing efforts to address land use encroachments along the corridor. This will have a direct increase in land rents collected by the Foundation. Plans for new platform train stations in Victoria and Langford will be pursued. Trail development along the corridor is continuing in partnership with various regional districts and the Nanaimo Regional Rail Trail Association.

ISLAND CORRIDOR FOUNDATION
Notes to Financial Statements
Year Ended December 31, 2014

2. GOING CONCERN *(continued)*

The Nanaimo Heritage Train Station has a principal tenant with a triple net lease for a ten year term, commencing September 19, 2011. Minimum annual rent per the lease agreement is \$91,101 and increases to \$100,964 by the fifth year. Lease revenues contribute a net return after mortgage interest and occupancy costs. There remains a small unleased area in the building.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNFPPO).

Fund accounting

Island Corridor Foundation follows the restricted fund method of accounting for contributions and maintains two funds - Operating Fund and Capital Fund.

The Operating Fund accounts for assets, liabilities, revenues and expenses related to the Foundation's program delivery in the preservation of the railway corridor and its administrative activities.

The Capital Fund reports the assets, liabilities, revenues and expenses related to Island Corridor Foundation's capital assets, including acquisitions and disposals and debt commitments.

Revenue recognition

The Foundation recognizes donations when received. Municipal grant revenue is recognized over the period specified by the grantor. Interest revenue is recognized when earned. Revenue from crossing agreements and lease agreements is recognized over the term of the agreement. Revenue is not recognized where there is no agreement in place. Rental income is recognized as earned over the term of the lease. Fundraising revenue is recognized when received. File opening fees are recorded when their collectability is reasonably assured.

Contributed services and materials

Contributions of services and materials are recognized both as contributions and expenses in the statement of operations when a fair value can be reasonably estimated and when the services and materials are used in the normal course of the Foundation's operations and would otherwise have been purchased.

Financial instruments policy

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial assets with actively traded markets are reported at fair value, with any unrealized gains and losses reported in income. All other financial instruments are reported at amortized cost, and tested for impairment at each reporting date. Transaction costs on the acquisition, sale, or issue of financial instruments are expensed when incurred.

(continues)

ISLAND CORRIDOR FOUNDATION
Notes to Financial Statements
Year Ended December 31, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost less accumulated amortization. Property, plant and equipment is amortized over its estimated useful life on a straight-line basis at the following rates and methods:

Track	21.5-27 years
Bridges and tunnels	40 years
Culverts	20 years
Railway signals	8.8 years
Railway stations	20 years

The Foundation regularly reviews its property, plant and equipment to eliminate obsolete items. Government grants are treated as a reduction of property, plant and equipment cost.

Property, plant and equipment acquired during the year but not placed into use are not amortized until they are placed into use.

Callable debt

The Foundation's demand loans are classified as current liabilities because the lender has the right to demand repayment within one year.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period.

Significant areas requiring the use of management estimates include accounts receivable, amortization and accrued liabilities.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization is based on the estimated useful lives of capital assets, as outlined above. Accrued liabilities are based on management estimates.

These estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

4. FINANCIAL INSTRUMENTS

The Foundation is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the Foundation's risk exposure and concentration as of December 31, 2014.

(continues)

ISLAND CORRIDOR FOUNDATION
Notes to Financial Statements
Year Ended December 31, 2014

4. FINANCIAL INSTRUMENTS (continued)

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Foundation is exposed to credit risk from tenants and customers. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts and other information.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Foundation is exposed to this risk mainly in respect of its receipt of funds from its customers and other related sources, callable debt, long-term debt and accounts payable.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Foundation manages exposure through its normal operating and financing activities. The Foundation is exposed to interest rate risk primarily through its floating interest rate callable debt and long term debt.

5. EXTERNALLY RESTRICTED CASH AND NET ASSETS

During the year, the Foundation received on behalf of the Nanaimo Regional Trail Association \$20,191 (2013 - \$31,025) of grants and donations from the Nanaimo Economic Development Corporation, the Downtown Nanaimo Business Improvement Association and other donors. The use of the funds is restricted for the future construction of trailways along the corridor in the Nanaimo region.

6. FUNDS HELD IN TRUST

As at December 31, 2014, \$10,000.00 of funds were held in trust related to statutory right of way applications in progress, which is included in the long term portion of deferred revenue.

7. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	2014 Net book value	2013 Net book value
Land	\$ 274,470,628	\$ -	\$ 274,470,628	\$ 274,470,628
Track	55,722,890	19,896,164	35,826,726	38,076,807
Bridges and tunnels	29,630,344	6,574,383	23,055,961	23,796,715
Culverts	7,872,370	3,491,357	4,381,013	4,774,631
Railway signals	5,723,000	5,723,000	-	601,562
Railway stations	2,897,340	683,367	2,213,973	2,358,840
	\$ 376,316,572	\$ 36,368,271	\$ 339,948,301	\$ 344,079,183

ISLAND CORRIDOR FOUNDATION
Notes to Financial Statements
Year Ended December 31, 2014

8. CALLABLE DEBT

	2014	2013
CIBC non-revolving instalment loan bearing interest at prime plus 1.75% per annum, repayable in monthly blended payments of \$7,125. The loan matures on December 31, 2031 and is secured by a first charge over all property owned by the Foundation, registered assignment of rents and a \$1.1 million registered first charge over the Nanaimo Train Station property having a net book value of \$1,822,374. Loan is callable on demand.	\$ 1,019,878	\$ 1,055,992
Principal due in one year	(37,874)	(36,120)
	\$ 982,004	\$ 1,019,872

Principal repayment terms are approximately:

2015	\$ 37,874
2016	39,712
2017	41,640
2018	43,662
2019	45,781
Thereafter	811,209
	\$ 1,019,878

9. LONG TERM DEBT

	2014	2013
Southern Railway ("SVI") loan bearing interest at prime plus 1% per annum, repayable in 4 quarterly payments per year of \$25,000 plus interest. The loan is secured by a promissory note and a second charge over all of the Foundation's assets.	\$ 175,000	\$ 175,000
Amounts payable within one year	(175,000)	(175,000)
	\$ -	\$ -

There has been no principal and interest repayments on the loan since September 30, 2008. The parties have an agreement to defer repayment of the debt plus accumulated interest up to the date of execution of a Long Term Operating Agreement as described in Note 2. Until the revised terms are agreed to by Southern Railway, the liability will remain a current liability. Included in accrued interest payable is \$43,124 related to this loan.

ISLAND CORRIDOR FOUNDATION
Notes to Financial Statements
Year Ended December 31, 2014

10. DEFERRED REVENUE

Deferred revenue consists of long term leases and right-of-way fees where payments were received in advance. Changes in the deferred revenue balance are as follows:

	2014	2013
Balance, beginning of year	\$ 72,770	\$ 59,782
Amount received during the year	124,519	36,250
Less: Amount recognized as revenue during the year (included in Crossings, leases and fees)	(50,422)	(23,262)
Balance, end of year	\$ 146,867	\$ 72,770

The current portion of deferred revenue is \$25,991 (2013 - \$15,870) and the non-current portion is \$120,876 (2013 - \$56,899).

11. RENTAL INCOME

Rental revenue and expenses related to the Nanaimo Train Station are as follows:

	2014	2013
Commercial rent	\$ 91,101	\$ 85,348
Recoveries from tenant	35,244	34,062
Rental expenses	(37,589)	(37,013)
	\$ 88,756	\$ 82,397

12. CONTINGENT LIABILITY

The Foundation has been named as defendant in a lawsuit seeking to recover damages allegedly sustained as a result of a motor vehicle accident. This lawsuit remains at an early stage, and as litigation is subject to many uncertainties, it is not possible to predict the ultimate outcome of this lawsuit or to estimate the loss, if any, which may result.

13. ECONOMIC DEPENDENCE

One of the Foundation's primary source of revenue is from the Canadian Pacific Railway of \$329,940 per year. The Foundation's ability to continue viable operations is dependent upon the continued support of this entity.

14. RELATED PARTY TRANSACTIONS

Property taxes and user rates totalling \$12,218 (2013 - \$58,326) and trail development fees of \$25,000 paid to members of the Foundation are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Municipal members have provided the Foundation with an exemption from paying property taxes in which case no expense is recorded.

ISLAND CORRIDOR FOUNDATION
Notes to Financial Statements
Year Ended December 31, 2014

15. COMMITMENTS

Management and administration of the Foundation's operations are governed by contracts that expire May 30, 2016.

The annual amount committed for management and administration under existing contracts are as follows:

2015	\$ 174,000
2016	<u>72,500</u>
	<u>\$ 246,500</u>